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SUBJECT: RUDD HEADS FOR THE US AFTER A GOOD WEEK

¶1. (SBU) SUMMARY: After a week that began badly with the Senate's defeat of a Government tax designed to curb binge drinking, Prime Minister Kevin Rudd leaves for the United States with two significant political victories. His labor relations bill received parliamentary approval last Friday, and the next day, his Australian Labor Party (ALP) colleague and political ally Anna Bligh won a state election in Queensland. The Senate had frustrated the Government during the two-week legislative session that just ended, but the labor relations bill, a key campaign promise, passed an independent Senate virtually unscathed - thanks in large measure to the skill and determination of Deputy Prime Minister Julia Gillard. END SUMMARY.

SENATE FRUSTRATES RUDD

¶2. (SBU) On March 18, Rudd's "alcopops tax" - an increase in the excise on pre-mixed alcoholic drinks aimed at tackling teenage binge drinking - was rejected by the Senate due to the combined opposition of the Coalition and one independent senator, Family First Senator Steven Fielding. The key legislative hurdle for the Government is the Senate, where it needs the support of the Green Party and two independent senators to pass legislation. With the defeat of the alcopops tax, the risk for the Government was that the independent senators would continue to hold it hostage, particularly on key legislation such as its workplace relations bill (known as "Fair Work Australia").

BUT ALP WINS THE MAIN GAME

¶3. (SBU) Passage of Fair Work Australia was the highest legislative priority for the Government for this sitting of Parliament. Rudd had campaigned heavily on abolishing John Howard's unpopular, pro-business industrial relations laws, known as "WorkChoices." Rolling back "WorkChoices" was one of the ALP's key commitments - particularly for the unions who had backed the Labor Party so strongly during the election. With unemployment rising, however, and the Opposition refusing to back the changes - and hand Rudd a major victory - the Government had to rely on the Green Party and the two independent senators to pass the legislation. Deputy Prime Minister and Workplace Relations Minister Julia Gillard, who had worked long and hard to craft a bill that both the unions and business could live with, played hard ball with the independents, refusing to accept their amendments and in the end, during an extra sitting day required to decide the bill, the independents capitulated. Gillard's staff told us later that the Government "played the politics pretty hard."

ALP WIN IN RUDD'S HOME STATE

¶4. (SBU) On March 21, the long-serving ALP government in Rudd's home state of Queensland won a surprisingly comfortable victory, defying polls which had suggested a tight race. Premier Anna Bligh, a close ally of Rudd's who

had assumed power after the previous premier had resigned, became the first elected female premier in Australian history. The election was fought overwhelmingly on state issues, but it was still good news for Rudd. It is the ALP's best state election result since he took office, and shows that governments can retain office in an economic downturn. Bligh did what Rudd is doing - she portrayed the Opposition as cost-cutting economic rationalists who will destroy jobs.

#### RUDD'S HONEYMOON CONTINUES

15. (SBU) COMMENT: Rudd's political honeymoon, which started when he became ALP leader in December 2006, continues. He remains highly popular, and the ALP is on track to increase its parliamentary majority. The global financial crisis has been politically advantageous for Rudd. In late 2008, there was a growing view the former bureaucrat was more interested in process - i.e. establishing reviews and inquiries - than making decisions. However, the economic downturn forced Rudd to act quickly. He has "splashed the cash" at his working families, while painting the Coalition as tied to the bogeyman of WorkChoices and shifting blame for rising unemployment onto international events. Some remain baffled at Rudd's popularity. He is widely viewed as uncharismatic and boring, but his confident, erudite and bureaucratic style appears to have convinced the public he is doing all he can to save their jobs. Up until now, Rudd has not been compelled to make an unpopular decision. His sky high approval ratings could begin to change once his second budget is handed down in May, and the employment impact of his labor relations bill becomes clear - and when he has to implement his second major campaign commitment, his emissions trading

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